

PROPOSED RESOLUTION

Resolution W-5004
DWA/RSK/BMD/MML/ds4

AGENDA ID #13229 (Rev. 1)
ITEM #7

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION W-5004
September 11, 2014

RESOLUTION

(RES. W-5004) LARKSPUR MEADOWS WATER
COMPANY. ORDER AUTHORIZING A GENERAL RATE
INCREASE PRODUCING ADDITIONAL ANNUAL
REVENUE OF \$5,894, OR 32.5%, FOR TEST YEAR 2014.

SUMMARY

By Advice Letter 18-A, filed on December 27, 2013, Larkspur Meadows Water Company seeks to increase its rates for water service to earn an adequate return on its new plant investment. For Test Year 2014, this Resolution grants an increase in gross annual revenues of \$ 5,894, or 32.5%, over current rates, which is estimated to provide a rate of return of 11.30%.

BACKGROUND

Larkspur Meadows Water Company (Larkspur) is a Class D water utility serving 35 fixed rate customers, one with two connections, in an unincorporated area of Tehama County near Red Bluff. By Advice Letter (AL) 18-A, Larkspur has requested authority under Rule 7.6.2 of General Order (GO) 96-B, Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code to increase its water rates by \$7,207, or 43.1%, for Test Year (TY) 2014, over the current rates. The primary purpose of the rate increase request is to provide an adequate rate of return on new plant investment. Larkspur's request was based on a rate of return (ROR) of 12.00%.

The present rates became effective on March 27, 2010, pursuant to Res. W-4813, which granted an increase in revenues of \$3,648, or 26.12%, and a rate of margin of 24%.

NOTICE AND PROTEST

AL 18-A was served on December 27, 2013, in accordance with GO 96-B, including on adjacent utilities and persons on the general service list. On January 23, 2014, a notice of the proposed rate increase was mailed to each customer and to the general service list.

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Three customer letters, one of them signed by fourteen customers, questioning the rate increase, were timely received and the utility replied. The Division of Water and Audits (Division) reviewed the letters and responses and believes the utility made a complete response to the issues raised in the protest letters.

In setting rates in this resolution, we have balanced the financial requirements of Larkspur with the rate concerns of its customers.

DISCUSSION

The Division made an independent analysis of Larkspur's operations. Appendix A shows Larkspur's and the Division's estimated summary of earnings at present and proposed rates for TY 2014 and the Division's recommended rates for TY 2014. The Division informed Larkspur of how the methodologies and escalation rates it used differed from those used in Larkspur's request. Larkspur is now in agreement with the Division's recommended revenue requirement, shown in Appendix A, and the Division's recommended rates, shown in Appendix B. The Division recommends that the Commission approve the rate increases and resulting rates shown in Appendix B.

The Division's estimate of Larkspur's operating expenses is based on data from years 2011-2013. For purchased power costs, the Division based its estimate on actual usage and applied the Pacific Gas and Electric rates in effect on July 1, 2014. The quantities used to calculate purchased power are found in Appendix D. The Division estimate for contract work is based on expenses that the utility had booked to the other plant maintenance account. This account change is to encourage consistency with the Uniform System of Accounts adopted by Decision 85-04-076. For regulatory commission expense, the Division excluded consultant costs associated with a potential sale since the rate payer benefit of selling the utility has not been established. Division allowed those costs associated with this GRC.

Larkspur's new plant investment was the primary driver for the rate request. The \$65,207 project included 1,360 feet of mains, sixteen new backflow preventers, and replacement of the lone public fire hydrant. The project was permitted and inspected by the County of Tehama Environmental Health Department (EHD). Division staff discussed the scope and necessity of the project with the Director of EHD, who verified that the plant additions were prudent and necessary to replace old and worn equipment.

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Rate of Return

Larkspur requested a 12.00% rate of return (ROR). The current range recommended for ROR for a Class D utility is 10.80% to 11.80%¹, and Division based its analysis on 11.30%, the midpoint of the range. Larkspur had requested in AL 18-A that the top of the ROR range be used, stating that it had been “very responsive to the compliance requirements of regulatory agencies along with substantial system improvements.” While the Division has no argument with this statement, it is also true that the increase being requested is substantial and has been protested by nearly half of Larkspur’s customers. Division has therefore made its recommendation based on the midpoint of the range.

In Decision (D.) 92-03-093 effective April 30, 1992, the Commission adopted the Return on Margin (ROM) ratemaking as an alternate to the ROR method for calculating net revenue for Class C and Class D Utilities and required the Division to recommend the method that produces the higher net revenue result. The Division found that using the 21.69% ROM currently allowed² would produce \$ 3,191 in net revenues, which is less than the \$ 7,207 calculated using the ROR method. Therefore, Division recommends revenues using the 11.30% ROR.

Rate Design

Larkspur’s rate structure consists of one schedule: Schedule No. 2R, Residential Flat Rate Service. This tariff currently includes a lot size charge of \$0.14 per 100 sq. ft. of area in excess of 10,000 sq. ft. The present manager has stated that the practice in place when she took over management upon the passing of her father in 2011 was to not assess this charge and she has continued the practice. In fact, the rates in the previous Test Year 2010 GRC were designed to generate the revenue requirement without the lot size charge. Division recommends that the charge be eliminated from the tariff. The utility has also stated that it now has one customer with two connections. Division recommends new tariff language to reflect this. The rates proposed by the Division and shown in Appendix B reflect these changes. At the recommended rates, the increase in revenue will be \$ 5,894, or 32.5%, for TY 2014.

At the Division’s recommended rates shown in Appendix B, monthly flat rates will increase from \$ 41.94 to \$ 55.59, a difference of \$13.65 or 32.5%. A comparison of

¹ This recommendation is set forth in a March 21, 2014 memorandum to the Commission entitled Rates of Return and Rates of Margin for Class C and Class D Water Utilities (March 21, 2014 Memorandum).

² See the March 21, 2014 Memorandum.

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customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

COMPLIANCE

EHD reports that the utility is in compliance with water quality standards. The utility has not been billing according to filed tariffs as discussed above. The tariffs have been changed herein to reflect current billing practices. The utility has been filing annual reports as required. There are no other compliance matters outstanding.

COMMENTS

Public Utilities Code Section 311(g)(1) provides that resolutions generally must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

Accordingly, this proposed resolution was mailed to the utility and all protestants, and made available for public comment commencing on August 12, 2014. No protests were received.

FINDINGS

1. In reviewing Larkspur's request, the Division made an independent analysis of Larkspur's operations.
2. The Division's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
3. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
4. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
5. For TY 2014, it is appropriate to grant Larkspur an increase in gross annual revenues of \$5,894, or 32.5%, which is estimated to provide a rate of return of 11.30%.

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THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Larkspur Meadows Water Company to file a supplemental advice letter with the revised rate schedule attached to this Resolution as Appendix B and concurrently cancel its presently effective rate Schedule No. 2R, Residential Flat Rate Service. The effective date of the revised schedule shall be five days after the date of filing.
2. The quantities (Appendix D) used to develop the Division of Water and Audits' recommendations are adopted.

This Resolution is effective today.

I certify that the foregoing Resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on September 11, 2014; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

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APPENDIX A

Larkspur Meadows Water Company SUMMARY OF EARNINGS

Test Year 2014

Item	Utility Estimated		Branch Estimated		Recommended Rates
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<u>OPERATING REVENUES</u>					
Flat Rates	\$16,738	\$23,945	\$18,118	\$25,929	\$24,013
Other Water Revenue	\$0	\$0	\$0	\$0	\$0
<u>Total Revenue</u>	\$16,738	\$23,945	\$18,118	\$25,929	\$24,013
<u>OPERATING EXPENSES</u>					
Purchased Power	\$5,200	\$5,200	\$5,325	\$5,325	\$5,325
Other Volume Related Expenses	\$0	\$0	\$0	\$0	\$0
Employee Labor	\$0	\$0	\$0	\$0	\$0
Materials	\$0	\$0	\$0	\$0	\$0
Contract Work	\$0	\$0	\$3,254	\$3,254	\$3,254
Water Testing	\$0	\$0	\$977	\$977	\$977
Transportation	\$0	\$0	\$0	\$0	\$0
Other Plant Maintenance	\$3,939	\$3,939	\$0	\$0	\$0
Office Salaries	\$0	\$0	\$0	\$0	\$0
Management Salaries	\$0	\$0	\$0	\$0	\$0
Employee Benefits	\$0	\$0	\$0	\$0	\$0
Uncollectibles	\$167	\$167	\$123	\$123	\$123
Office Services & Rental	\$0	\$0	\$0	\$0	\$0
Office Supplies and Exp	\$0	\$0	\$0	\$0	\$0
Professional Services	\$1,396	\$1,396	\$1,407	\$1,407	\$1,407
Insurance	\$0	\$0	\$0	\$0	\$0
Regulatory Comm Exp	\$1,415	\$1,415	\$1,033	\$1,033	\$1,033
General Expenses	\$626	\$626	\$573	\$573	\$573
Subtotal	\$12,743	\$12,743	\$12,692	\$12,692	\$12,692
Depreciation Expense	\$932	\$932	\$1,680	\$1,680	\$1,680
Taxes other than income	\$340	\$340	\$340	\$340	\$340
State Income Tax	\$800	\$800	\$800	\$992	\$822
Federal Income Tax	\$505	\$1,055	\$391	\$1,534	\$1,272
<u>Total Deductions</u>	\$15,320	\$15,869	\$15,903	\$17,237	\$16,806
<u>NET REVENUE</u>	\$1,418	\$8,076	\$2,215	\$8,691	\$7,207
<u>RATE BASE</u>					
Average Plant	\$84,599	\$84,599	\$83,689	\$83,689	\$83,689
Average Depreciation Reserve	\$18,310	\$18,310	\$19,913	\$19,913	\$19,913
<u>Net Plant</u>	\$66,289	\$66,289	\$63,776	\$63,776	\$63,776
Working Cash	\$1,008	\$1,008	\$0	\$0	\$0
Materials and Supplies	\$0	\$0	\$0	\$0	\$0
<u>Rate Base</u>	\$67,297	\$67,297	\$63,776	\$63,776	\$63,776
<u>RATE OF RETURN</u>	2.1%	12.0%	3.5%	13.6%	11.3%

(END OF APPENDIX A)

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APPENDIX B

Larkspur Meadows Water Company

SCHEDULE NO. 2R

RESIDENTIAL FLAT RATE SERVICE

Test Year 2014

APPLICABILITY

Applicable to all residential water service furnished on a flat rate basis.

TERRITORY

Larkspur Meadows Subdivision and vicinity, located approximately one mile south of the City of Red Bluff, Tehama County.

RATES

	Per Service Connection Per Month	
For a single-family residence, including premises:	\$ 55.59	(I)(C)
Additional connection:	\$ 55.59	(N)
		(D)

SPECIAL CONDITIONS

1. The above flat rate charges apply to service connections not larger than one-inch in diameter.
2. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

(END OF APPENDIX B)

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APPENDIX C

Twin Lakes Enterprises, Inc.

COMPARISON OF RATES TEST YEAR 2014

<u>Service</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
Monthly Flat Rate	\$41.94	\$55.59	\$13.65	32.5%

(END OF APPENDIX C)

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APPENDIX D

Larkspur Meadows Water Company
ADOPTED QUANTITIES
TEST YEAR 2014

1. *Purchased power*

<i>Vendor</i>	<i>Pacific Gas and Electric</i>
<i>Adopted Usage KWH</i>	24,873
<i>Total Cost</i>	\$5,325
<i>Composite Energy Cost (\$/KWH)</i>	\$0.21408

2. *Tehama Environmental Health charges in General Expense:* \$415

3. *Number of Service Connections:*

<i>Flat Rate Connections</i>	36
<i>Public Fire Hydrants</i>	1

4. *Tax calculation:*

<i>Line No.</i>	<i>Item</i>	<i>State Tax</i>	<i>Federal Tax</i>
1.	<i>Operating Revenue</i>	\$24,013	\$24,013
2.	<i>O & M Expenses</i>	\$12,692	\$12,692
3.	<i>Taxes Other Than Income</i>	\$340	\$340
4.	<i>Depreciation</i>	\$1,680	\$1,680
5.	<i>Interest Expense</i>	\$0	\$0
6.	<i>Taxable Income for State Tax</i>	\$9,301	
7.	<i>State Tax</i>	\$822	
8.	<i>Taxable Income for FIT</i>		\$8,478
9.	<i>Federal Income Tax</i>		\$1,272
10.	<i>Total Income Tax</i>		\$2,094
<i>California Corporate Franchise Rate</i>			8.84%
<i>Federal Income Tax Rate</i>			15%

(END OF APPENDIX D)

CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail, this day, served a true copy of Proposed Resolution No. W-5004 on all parties in these filings or their attorneys as shown on the attached lists.

Dated August 12, 2014, at San Francisco, California.

/s/DANIEL SONG

Daniel Song

Parties should notify the Division of Water and Audits, Fourth Floor, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

LARKSPUR MEADOWS WATER COMPANY

ADVICE LETTER NO. 18 SERVICE LIST

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Red Bluff, CA 96080

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Jenny Walker
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Josefina Chavez
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Roxana Ryant
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